

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY BRUSSELS

AMEMBASSY LUXEMBOURG

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FOLLOWING REPEAT STATE 48241 ACTION EC BRUSSELS PARIS LONDON
BONN ROME THE HAGUE COPENHAGEN DUBLIN NNFO OTTAWA CANBERRA
BUENOS AIRES MONTEVIDEO TOKYO BRASILIA MADRID BELGRADE GENEVA
27 FEB

QUOTE

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E.O. 11652: N/A

TAGS: EAGR, XG

SUBJECT: PROPOSED EC PRICE INCREASES

REF: BUSEC 1125

1. ALTHOUGH SECRETARY BUTZ EXPRESSED OUR VIEWS ON NEW EC
PRICE PROPOSALS TO LARDINOIS DURING RECENT CAMP DAVID MEETINGS
OUR VIEWS MUST ALSO BE CONVEYED THROUGH REGULAR DIPLOMATIC
CHANNELS IF WE ARE TO AVOID LEAVING IMPRESSION THE US GOVERN-
MENT IS NOT GREATLY CONCERNED ABOUT THE MATTER. ACTION POSTS
THEREFORE REQUESTED PROMPTLY CONVEY, AT APPROPRIATELY HIGH
LEVEL, (A) US CONCERN AND DISAPPOINTMENT WITH THE GRAIN
PRICE PROPOSALS, (B) OUR ALARM AT THE HIGHER PROTECTION THAT
WILL RESULT, AND (C) OUR HOPE THAT, IN KEEPING WITH OUR STRONG
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MUTUAL INTEREST IN MOVING TOWARD FREER TRADE, ACTION THAT WOULD

RAISE THE LEVEL OF EC PROTECTION BE POSTPONED INDEFINITELY.
IN SUPPORT OF THE FOREGOING, POSTS MAY DRAW UPON THE FOLLOWING
AS APPROPRIATE.

2. THE BIGGEST DISAPPOINTMENT OF ALL IN THE NEW EC GRAIN
PRICE PLANS IS THAT THEY WOULD BE A MAJOR SETBACK TO THE GOAL
OF FREER TRADE IN FARM COMMODITIES. HOWEVER Distant THAT
GOAL MAY SEEM, AND HOWEVER WIDE IS THE GAP BETWEEN FARM
POLICIES BETWEEN EUROPE AND THE US, WE ARE CONVINCED THAT IT
IS MORE IMPORTANT NOW THAN EVER THAT BOTH SIDES NONETHELESS
DO THEIR UTMOST TO AT LEAST MOVE TOWARD THAT GOAL.

3. BOTH CONSUMERS AND PRODUCERS, ON BOTH SIDES OF THE ATLANTIC,
AND ELSEWHERE IN THE WORLD AS WELL, WOULD HAVE MUCH TO GAIN BY
FREER TRADE BETWEEN THE US AND THE EC IN FARM PRODUCTS. THE
WORLD GRAIN ECONOMY IN THE LAST SEVERAL YEARS HAS FACED
EXTREME CONDITIONS BECAUSE OF WIDE CROP VARIATIONS, BUT THESE
STRAINS HAVE BEEN SUBSTANTIALLY GREATER BY REASON OF THE COMPARA-
TIVE INABILITY OR UNWILLINGNESS OF EC TO SHARE IN NECESSARY
YEAR-TO-YEAR ADJUSTMENTS
TO ACHIEVE REASONABLE BALANCE BETWEEN SUPPLY AND UTILIZATION
AT GLOBAL LEVEL. THE TENDENCY, IN FACT, IS IN THE OPPOSITE
DIRECTION DURING TIMES OF EXTREME IMBALANCE (WHICH IS THE TIME
WHEN EC SHARING IS MOST NEEDED); THE LEVY MECHANISM ITSELF
WORKS TO ACCENTUATE GLOBAL PRICE EXTREMES, AND EXPERIENCE SHOWS
CLEARLY THAT EFFECT OF EC SYSTEM IS TO CAUSE INTERNAL STOCKS
LEVELS TO RISE WHEN GLOBAL STOCKS ARE SHORT AND DISPERSE WHEN
GLOBAL STOCKS ARE HIGH.

4. THE LAST 2 OR 3 YEARS HAVE OPENED A NEW OPPORTUNITY FOR
FINDING A BETTER FIT ON GRAIN POLICIES BETWEEN THE EC AND THE
US. WORLD PRICES HAVE MOVED MORE TOWARD THE LEVEL OF INTERNAL
EC PRICES. FOR SUBSTANTIAL PERIODS IN RECENT YEARS, WORLD
PRICES HAVE ACTUALLY BEEN HIGHER THAN INTERNAL EC GRAIN PRICES,
BUT EC PRODUCERS HAVE NOT BEEN ABLE TO RECEIVE THE BENEFIT.

THIS MAY HAVE KEPT THEM FROM RESPONDING TO STRONGER WORLD
DEMAND ALONG WITH PRODUCERS IN EXPORTING COUNTRIES. IF HAS
ALSO KEPT INTERNAL EC CONSUMPTION, ESPECIALLY FOR ANIMAL
FEED, FROM MAKING THE TYPE OF TEMPORARY ADJUSTMENTS WHICH
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HAVE OCCURRED IN PLACES LIKE THE US.

5. IN TIMES OF HEAVY SUPPLY, WORLD PRICES MAY AGAIN GO
BELOW THE INTERNAL EC LEVELS, BUT EC LIVESTOCK FEEDERS WILL
NOT GET THE BENEFIT AND THEY WILL BE UNABLE TO INCREASE USAGE,
AND THEREBY UNABLE TO SHARE IN MAINTAINING THE GLOBAL BALANCE
OF SUPPLY AND DEMAND. THE NEW PRICE HIKE PLANS MAKE THIS
EVEN MORE REMOTE.

6. THE SHIFT IN WORLD PRICE LEVELS IN RECENT YEARS PROVIDED THE BEST OPPORTUNITY, SINCE THE TIME OF EC FORMATION, TO BEGIN MOVING TOWARD SOMEWHAT FREER TRADE BETWEEN US IN GRAINS. WE SHOULD PRESERVE THIS OPENING FOR PROGRESS, FOR IF THERE CAN BE FREER TRADE IN GRAINS, THERE MAY ALSO SOON EVOLVE FREER TRADE IN LIVESTOCK PRODUCTS.

7. EC WANTS A SYSTEM TO PROTECT THEIR PRODUCERS FROM LOW WORLD PRICES. WE DON'T DISAGREE ENTIRELY WITH THAT; BUT WE MUST STILL MOVE TOWARD FREER TRADE, NOT AWAY FROM IT.

8. THE PROPOSED EC GRAIN PRICES FOR 1976/77 WOULD BE THE LARGEST SINGLE INCREASE, EITHER IN ABSOLUTE OR PERCENTAGE TERMS, OF ANY IN EC HISTORY. TARGET (AND THRESHOLD) PRICES WOULD RISE BY 13.25 UNITS OF ACCOUNT FOR WHEAT AND 12.01 FOR CORN.

9. THE PROPOSAL WOULD LEAD TO DOLS 14 TO DOLS 16 PER TON INCREASE IN IMPORT LEVIES FOR THE MAJOR GRAINS. GIVEN THE CURRENT LEVEL OF WORLD PRICES, WHEAT LEAVY WOULD RISE FROM CURRENT LEVEL OF ABOUT 26 UA TO 39 WHILE CORN LEVY WOULD RISE FROM 34 TO 46. THE AMOUNT OF PROTECTION WOULD THUS RISE BY ONE-THIRD FOR CORN AND ONE-HALF FOR WHEAT.

10. THE PROPOSAL WOULD ALSO SHIFT THE BASE OF SUPPORT FROM THE INTERVENTION PRICE TOWARD THE THRESHOLD PRICE. BY RAISING TARGET AND THRESHOLD PRICES MORE THAN INTERVENTION PRICES, THE INCREASED RELATIVE COST OF FOREIGN GRAINS WOULD NOT ONLY DISCOURAGE IMPORTS BUT ALSO TEND TO BID UP MARKET PRICES OF DOMESTIC GRAINS ABOVE INTERVENTION LEVELS.

11. GREATER STABILITY IN THE INTERNATIONAL GRAIN SITUATION
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CAN ONLY BE ACHIEVED IF PRODUCTION AND CONSUMPTION IN EACH COUNTRY RESPONDS AT LEAST SOMEWHAT TO GLOBAL CHANGES IN SUPPLY AND DEMAND. COUNTRIES THAT USE GRAIN FOR ANIMAL FEED CAN AND SHOULD DO MORE OF THIS THAN COUNTRIES WHO USE GRAIN ONLY FOR FOOD.

12. BECAUSE OF ITS HIGH PRICE LEVELS THE EC HAS DISCOURAGED CONSUMPTION INCREASES WHEN WORLD GRAIN SUPPLIES WERE ABUNDANT AND PRICES LOW. ON THE OTHER HAND, WHEN SUPPLIES HAVE BEEN SHORT IN THE LAST FEW YEARS, THE EC HAS DENIED ITS GRAIN TO THE WORLD THROUGH EXPORT LEVIES. THIS ALLOWED MAINTENANCE OF EC GRAIN CONSUMPTION LEVELS AND EVEN A GRAIN STOCK BUILDUP WHEN OTHERS WENT WITHOUT. INGERSON UNQUOTE INGERSON

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